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CONTRACT MANAGEMENT

DOD Is Examining Opportunities to Further Use Recovery Auditing

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United States
General Accounting Office
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National Security and
International Affairs Division

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Congressional Committees

Over the last few years, the Department of Defense (DOD), under
authorization from the Congress, has conducted a demonstration
program to evaluate the feasibility of using private contractors to
identify overpayments it had made to vendors. Identifying and
recovering overpayments is referred to as recovery auditing. In
December 1998, we reported that although DOD was experiencing
difficulty in obtaining recovery of about $17 million identified under
the program, the concept of recovery auditing offers potential to
identify overpayments.[1]

In House Report 105-532, which related to a bill providing for fiscal
year 1999 DOD authorizations, DOD was directed to implement the
expanded recovery audit demonstration program of section 388,
P.L. 105-85, by selecting at least two commercial functions within its
working capital fund and issuing a competitive request for proposal
by December 31, 1998. The House report also directed us to provide
an initial review of the expanded programs by April 1, 1999. This
report responds to the reporting requirement in the House report.

Results in Brief

DOD did not select at least two commercial functions within its
working capital funds accounts and issue a competitive request for
proposal by December 31, 1998. However, in response to an August
1998 DOD memorandum encouraging the use of recovery auditing,
three working capital funds activities--the Defense Commissary
Agency, the Defense Logistics Agency (DLA), and the U.S.
Transportation Command—told us they are developing plans to use
recovery auditing. The Defense Commissary Agency said it plans to
have a contract for recovery auditing services by March 31, 1999.
The Defense Logistics Agency plans to expand the use of recovery
auditing from the demonstration program in place at the Defense

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[1] Contract Management: Recovery Auditing Offers Potential to Identify Overpayments
(GAO/NSIAD-99-12, Dec. 3, 1998).

Supply Center, Philadelphia, Pennsylvania to its other four supply centers.[2] However, as of February 5, 1999, DLA had not published a schedule to show when it plans to have contracts for these supply centers. Finally, the U.S. Transportation Command began planning to contract for audit recovery services, although it has not established an implementation schedule. Each of the services also expressed an interest in recovery auditing and is evaluating whether to use it.

Of the other recipients of the August 1998 DOD memorandum, the Defense Finance and Accounting Service plans to use recovery auditing at some future time. The Defense Information Services Agency does not plan to use recovery auditing because it claims to have a successful track record with vendors in offsetting overpayments. Finally, the Joint Logistics Systems Center does not plan to use recovery auditing because it is scheduled to deactivate this March.

Agency Comments

On February 12, 1999, we requested comments from the Secretary of Defense on a draft of this report. On February 22, 1999, the Office of the Under Secretary of Defense, Comptroller, informed us that DOD concurred with the contents of this report.
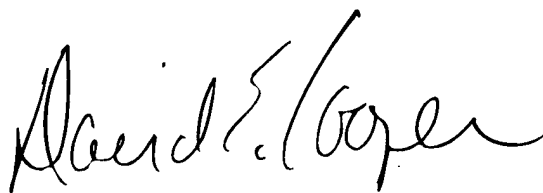
Scope and Methodology

To determine DOD's efforts to expand the use of recovery auditing, we obtained information from the offices of the DOD Comptroller; the Under Secretary of Defense for Acquisition and Technology; the three military services; and the working capital fund agencies discussed previously on the status of efforts to select a commercial function and issue a competitive request for proposal by December 31, 1998. We also discussed the agencies' future plans for using recovery auditing.

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[2] These are the Defense Supply Center, Columbus; Defense Supply Center, Richmond; Defense Industrial Supply Center; and Defense Energy Support Center.

GAO/NSIAD-99-78 Contract Management

We performed our review from January 1999 through March 1999 in accordance with generally accepted government auditing standards.

We are sending copies of this report to Senator Robert C. Byrd, Senator Pete V. Domenici, Senator Frank R. Lautenberg, Senator Fred Thompson, Senator Joseph I. Liberman, Representative Rod R. Blagojevich, Representative John R. Kasich; Representative David R. Obey, Representative Christopher Shays, Representative John M. Spratt, Jr., and Representative C. W. Bill Young in their capacities as Chair or Ranking Minority Member of Senate and House Committees and Subcommittees. We are also sending copies of this report to The Honorable William Cohen, Secretary of Defense; The Honorable Jacob Lew, Director, Office of Management and Budget; Lieutenant General Henry T. Glisson, Director, Defense Logistics Agency; and Major General Timothy P. Malishenko, Commander, Defense Contract Management Command. Copies will also be made available to others on request.

Please contract me at (202) 512-4587 if you or your staff have any questions concerning this report. Major contributors to this report were Charles W. Thompson, Daniel J. Hauser, and Myra W. Butler.

David E. Cooper
Associate Director
Defense Acquisitions Issues

List of Congressional Committees

The Honorable John W. Warner
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The Honorable Carl Levin
Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable Ted Stevens
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The Honorable Daniel K. Inouye
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